- When the volume of the units measured for the non-affiliate or Section 272 equals one.

For performance measures where the parity score is less than zero, the Qwest BOC's normal process is to not perform root cause analysis since the parity analysis indicates that there is not a statistically significant difference in the results.

For performance measures where the parity score is greater than zero, the Qwest BOC's normal process is to perform a root cause analysis when the condition exists for three consecutive months in any one state. Identified all statistically significant differences (parity score greater than zero for three consecutive months for any one state) during the Engagement Period and requested that the Qwest BOC provide explanations. The Qwest BOC explanations are included in Attachment A-9.

5. Using the reported data (i.e., by state, by service, by performance measure, by month) in Procedure 4 above, randomly selected the months of December 2004, March 2005 and December 2005 for testing. For the selected months, applied the business rules to the underlying data and compared the results to those tracked and maintained by the Qwest BOC for that performance metric. Application of the business rules considered the definitions, exclusions, calculations and reporting structure included in the business rules. All performance metrics for the selected months were recalculated and the following differences were noted:

   - For the December 2004 results for PO-5 Frame Relay, for all states reported a zero numerator. Also noted that this error was corrected by the Qwest BOC with the posting of the July 2004 to June 2005 results.

   - For the December 2005 results for OP-3 DS1, noted that an Access Customer Name Abbreviation (ACNA) belonging to QCC was listed as a non-affiliate in the ACNA list and one transaction was incorrectly included in the Colorado non-affiliate results.

6. Inquired and documented how the Qwest BOC makes available to non-affiliated entities information regarding performance results in providing any service to the Section 272 Affiliates, BOC and other BOC affiliates, and non-affiliates. Performance results are posted at a regional level on the Qwest Internet site at the following URLs and are updated on a monthly basis:

   http://www.qwest.com/about/policy/docs/qcc/overview.html; or,
   http://www.qwest.com/about/policy/docs/QwestLD/overview.html.

OBJECTIVE IX. Determine whether or not the BOC and an affiliate subject to section 251(c) of the Act have made available facilities, services or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has to its affiliate required under section 272 that operates in the same market.

1. Obtained a list of 31 exchange access services and facilities with their related rates offered to each Section 272 Affiliate. The Qwest BOC represented that two forms of media, the Qwest Internet site, http://www.qwest.com/wholesale/pcat/index.html and the Wholesale Notification Process, are used to disclose information regarding the availability of these services to the Section 272 Affiliates and non-affiliated carriers. The Wholesale Notification Process allows carriers to choose to receive notifications via U.S. Mail or email. Additionally, the Qwest BOC represented that they did not use brochures or bill inserts to inform carriers of the availability of services. For all 31 exchange access services and facilities offered to the Section 272 Affiliates, reviewed the media sources for rates, terms, and conditions disclosed. Noted no distinctions in the rates terms and conditions made available to the Section 272 Affiliates and to non-affiliated carriers in the media reviewed.

2. Randomly selected the months of September 2004, April 2005 and June 2005 for testing in this procedure.

   a. Obtained a listing of all exchange access services and facilities, rendered by the Qwest BOC to the Section 272 Affiliates for months listed above on January 28, 2006, and similar supplemental listing on February 20, 2006. From these two listings, determined the 11 exchange access services and facilities with the highest volume billed to non-affiliated third parties during the selected months. The selected services are listed in Table 7 below.

Table 7:
Eleven Exchange Access Service/Facilities with the Highest Volume Billed to Non-affiliated Third Parties in the Months of September 2004, April 2005 and June 2005.

Line	USOC	Description
1	FLQ3X	Channel Termination – Per Point of Termination – Pricing Flexibility
2	TMECS	Special – Channel Termination
3	320	E.O. Local Switching 2
4	1U5C5	Access Service Channel Mile – Private Line Transport
5	1YFC2	Channel Mileage – Switched and Special Access – Pricing Flexibility – DS1 – Second Band

Line	USOC	Description
6	1U5U5	Channel Mileage – Switched and Special Access DS3 – Over 50 to 200 Miles – Monthly
7	FMC3X	DS3 to DS1 Multiplex – Price Flexibility – Provision Multiplex of 44.736 MBPS Capacity to 28 DS1 CHN-W/HC3- per arrangement
8	150	Premise Tandem Switch Charge
9	1YFC3	Channel Mileage – Switched and Special Access – Pricing Flexibility – DS1 – Third Band
10	F6N	Central Office Node – Pricing Flexibility – SONET
11	FHTAX	Channel Termination – Pricing Flexibility – HC System – Capacity 1 System

Management represented that these 11 services are billed to both the Section 272 Affiliates and non-affiliated IXCs from CRIS and IABS (Integrated Access Billing System) billing systems. Management further represented that for the services billed from the CRIS system, these same services are billed to both the Section 272 Affiliates and non-affiliated entities from CRIS. Management also represented that for the services billed from the IABS system, these same services are billed to both the Section 272 Affiliates and non-affiliated entities from IABS. Management further represented that if a customer orders exchange access services from the Qwest BOC's wholesale department, then that service is provisioned through the Exchange Access Control Tracking (EXACT) system and billed from IABS. If a customer orders from the retail department, then the service is billed from CRIS.

1. Inquired and documented the procedures used by the Qwest BOC for ensuring that the applicable tariff or agreement is billed to both the Section 272 Affiliates and non-affiliated IXCs. For each of the services listed in Table 7 above, obtained the billing system rate tables, including applicable discounts, surcharges, late fees, etc. used to bill the selected service. Also obtained the current tariffs and one contract [20] for these services. Compared the 3,121 items in the rate tables to the rates in the applicable tariffs and noted that four items listed as $80 in the rate tables were listed as $92 in the tariffs.

[20] All services listed in Table 7 were sold to the Section 272 Affiliates under tariff during the Audit Test Period except for USOC F6N. USOC F6N was sold to the Section 272 Affiliates under tariff except for one instance in which it was sold under contract in Utah (Contract # U27955).

Noted that for all the services listed in Table 7 provided to the Section 272 Affiliates under tariff, the tariff rates included in the rate tables were the same for both the Section 272 Affiliates and non-affiliated IXCs.

For the one contract rate (F6N in Utah), compared the rate charged to the Section 272 Affiliates to 1,646 rates charged to nonaffiliated IXCs. Noted that QCC was billed at a contract rate that expired in 2001. Management represented that the service continued to be provided at the old contract rate in error. Management also represented that QCC should have been notified that the term agreement had expired and that either a new agreement needed to be negotiated or the monthly charge would increase from the term agreement charge to the month-to-month rate. Noted that 57 of the 1,646 nonaffiliated F6N contract rates in Utah were higher than the F6N rate charged to QCC.

Inquired and documented, in Procedure VII-4a1, the procedures used by the Qwest BOC for updating the CRIS rate tables for the Audit Test Period.

Management represented that the following procedures were used during the Audit Test Period by the Qwest BOC for updating the IABS rate tables:

- There are two groups that update the IABS rate tables. The first group, which is located in Salt Lake City, updates the border interconnect point requests related to meet point billing (as found in the applicable tariff), product network channel codes, network channel interface requests (identifies what USOC is associated with each class of service and where it appears on the service order) and contractual rates. The updates are done either manually or via the Contract Management Application (COMA) system.

- The second group is the management tables group within the Wholesale group who updates IABS rate tables from tariff updates and contract requests. They also update tables for formal requests from the tax department and other internal departments. The controls in place include an integrated table maintenance system (ITMS) update system that has edit and error-out controls built into the system. There are also Database 2 edits in the IABS system. The group do peer reviews and second-level reviews for every update before release. If errors are noted, corrections are made and revalidated before release. At the end of the month, a report is run of all updates made to the system and verification of peer reviews conducted.

2. For the CRIS and IABS systems, documented in the workpapers the practices and processes that the Qwest BOC has in place to ensure the billing system bills the Section 272 Affiliate and non-affiliates at the same rates and under the same terms and conditions. Documented, in Attachment A-5, the Qwest BOC's internal controls and procedures designed to ensure non-discriminatory billing related to billings from CRIS and IABS.

b. For the three months selected in procedure a. above, obtained a listing of the Billing Account Numbers (BAN) that were billed to the Section 272 Affiliates for each of the 11 services listed in Table 7. Judgmentally selected three BANs per month, per service for a total of 99 BANs. The 99 BANs included 71 BANs from IABS and 28 BANs from CRIS. For the 99 BANs selected, obtained a listing of the individual billing transactions on each BAN. Randomly selected one billing transaction from each BAN. For the 99 billing transactions selected, tested for the proper application of the rate tables in effect at the time of the transaction, including all applicable discounts, surcharges, late fees, percent interstate usage (PIU) factors and shared use factors. Compared the rates used to calculate the billed transaction to the corresponding rates on the rate tables. For the 99 billing transactions, noted the following:

- For one transaction billed from CRIS, noted that the monthly recurring charge of \$92.00 was not billed.
- For one transaction billed from CRIS, noted that the September 2004 billing of \$1,500 did not reflect a rate change that was effective on August 31, 2004, that increased the monthly recurring rate from \$1,500 to \$2,200.
- For 97 of the 99 billed transactions, the rates charged agreed with rates from the applicable rate tables.

For the 99 billing transactions, obtained documentation that the Qwest BOC recorded the transaction as revenue to accounts 5082, 5083 and 5084 and recorded the payment for the transaction. Also obtained documentation that the Section 272 Affiliates expensed the transaction and that the same amount was paid by the Section 272 Affiliates. No differences were noted.

c. This procedure was not performed as the same systems, CRIS and IABS, are used to bill the services listed in Table 7 above to both the Section 272 Affiliate and non-affiliated entities. See testing in procedure a. above.

d. This procedure was not performed as the same systems, CRIS and IABS, are used to bill the services listed in Table 7 above to both the Section 272 Affiliate and non-affiliated entities. See testing in procedure b. above.

OBJECTIVE X. Determine whether or not the BOC and an affiliate subject to section 251(c) of the Act have charged their separate affiliate under section 272, or imputed to themselves (if using the access for their provision of their own services), an amount for access to their telephone exchange service and exchange access that is no less than the amount charged to any non-affiliated interexchange carriers for such service.

1. Obtained a list of four interLATA services offered by the Qwest BOC: National Directory Assistance (NDA), Reverse Directory Assistance (RDA), Enhanced 911 (E911) and signaling services. Discussed the list with the appropriate Qwest BOC representative, who indicated that the list was comprehensive. Compared the services appearing on the list with the interLATA services disclosed in the Qwest BOC's Cost Allocation Manual (CAM) Section II and compared the nonregulated interLATA services listed in Section II of the Qwest BOC's CAM with those defined as incidental in Section 271(g) of the Act and those interLATA services allowed under FCC order. Noted that signaling services are not listed in Section II of the CAM. Management represented that in a number of the Qwest BOC's LATAs, signaling service is provided by the carrier accessing signaling information stored in a different LATA. Management further represented that this type of interLATA signaling service network architecture was originally utilized pursuant to an MFJ waiver and is specifically permitted in section 271(g) (5) and (6) of the Act. The referenced signaling services are treated as part of the Qwest BOC's local exchange operations and are not subject to Part 64 accounting requirements by the Qwest BOC.

2. The Qwest BOC represented that from the list of services obtained in Procedure 1 above, it imputed to itself amounts for access, switching and transport for the NDA, RDA and E911 services during the Engagement Period. The Qwest BOC revised the imputation methodologies and cost studies for NDA, RDA and E911 during 2004 and retroactively applied the new methodology for the entire Engagement Period. Obtained usage details and rates used to calculate the amounts imputed for NDA, RDA and E911 services. Agreed rates used in the imputation calculations to tariff rates. No differences were noted.

   Traced the amounts imputed for NDA, RDA and E911 services by the Qwest BOC to the journal entry and to the general ledger and noted that the entry was a debit to nonregulated operating revenues (decrease) and a credit to regulated revenues (increase). No differences were noted.

3. For exchange access and local exchange service provided by the Qwest BOC to the Section 272 Affiliates during the 12 months of the Engagement Period ending September 30, 2005, documented the total amount the Section 272 Affiliates recorded as expense for those services in their books, the total amount the Section 272 Affiliates paid to the Qwest BOC and the amount of revenue billed by the Qwest BOC for those services. Table 8 below lists the documented amounts and differences noted. The Qwest BOC and Section 272 Affiliates represented that the Qwest BOC provided no unbundled

network elements to the Section 272 Affiliates during the 12 months of the Engagement Period ending September 30, 2005.

Table 8:
Summary of Local Exchange Service and Exchange Access Service Provided by Qwest BOC to the Section 272 Affiliates during 12 months ending September 30, 2005

Item	Description	CRIS System	IABS System	Total
1	Exchange Access	$30,453,928	$301,718,770	$332,172,698
2	Local Exchange	$69,239,692	$16,843	$69,256,535
3	Total QC Billed Revenue	$99,693,620	$301,735,613	$401,429,233
4	Total Section 272 Affiliate Payments	$108,788,603	$290,860,721	$399,649,324
5	Total Section 272 Affiliate Expense	$107,319,580	$290,995,734	$398,315,314
Differences Noted:				
6	QC Revenue Minus Section 272 Affiliates' Expense	($7,625,960)	$10,739,879	$3,113,919
7	Section 272 Affiliates' Expense Minus Payments	($1,469,023)	$135,013	($1,334,010)

The Qwest BOC represented that the billed revenue does not reflect volume discounts associated with regional commitment programs. The Qwest BOC also represented that the difference in billed revenue and Section 272 Affiliate expense is related to taxes and surcharges not included in the QC revenue, timing differences, cancellation of service charges, balance transfers, late payment fees, adjustments, accruals and services included in the expenses that are not Local Exchange or Exchange Access such as expedited order charges.

The Section 272 Affiliates represented that the difference in Section 272 Affiliate payments and expense is mainly due to accruals booked in October 2005. Additional factors include IABS accruals and timing differences between the payments and the expenses.

<u>OBJECTIVE XI</u>. Determine whether or not the BOC and an affiliate subject to section 251(c) of the Act have provided any interLATA facilities or services to its interLATA affiliate and made available such services or facilities to all carriers at the same rates and on the same terms and conditions, and allocated the associated costs appropriately.

1. Obtained a list of three interLATA services (NDA/RDA, signaling service and E911) offered to QCC by the Qwest BOC during the Engagement Period. Management represented that rates for these services can be found in the tariff references on the Qwest Internet site and the same services are offered to non-affiliates. Management represented that brochures, advertisements or bill inserts, per se are not used by the Qwest BOC to inform carriers of service availability. The primary media source is the Wholesale website, http://www.qwest.com/wholesale. This website serves as the entrance point and offers full access to carriers for products and services, resources, operations support systems, network information, training-notices-forums, and customer service. Information made available to the carriers does not distinguish between affiliated or non-affiliated customers. The Qwest BOC also keeps carriers informed through the Wholesale Notification Process (WNP). This notification process is used to inform customers (including IXCs) on a variety of topics, including product and tariff notices. Management represented that IXC notification includes affiliates and non-affiliates. All notices from 2004 to present may also be viewed on the Wholesale website at: http://www.qwest.com/wholesale/notices/cnla/.

   E&Y compared the three interLATA services listed above to the list of services listed in the agreements obtained in Objective V/VI, Procedure 4, the list of services obtained in Objective X, Procedure 1 and the Wholesale website. Noted that NDA/RDA was listed in Objective V/VI, Procedure 4, Objective X, Procedure 1 and the Wholesale website, signaling services were listed on the Wholesale website and E911 service was listed in Objective X, Procedure 1. Also noted that the three interLATA services are covered by written agreements or tariffs.

2. Obtained a copy of information media for NDA/RDA, signaling services and E911 service from Qwest's Internet site and noted no differences in the rates, terms and conditions offered to the Section 272 Affiliates and non-affiliated carriers.

3. Obtained a listing of the following six interLATA services and facilities rendered to QCC and other IXCs during the Audit Test Period:

   - 660 Signal Formulation Integrated Services Digital Network User Part (ISUP) – Originating
   - 661 Signal Formulation ISUP – Terminating
   - 663 Signal Switching ISUP – Originating
   - 664 Signal Switching ISUP – Terminating

- 666 Signal Transport ISUP – Originating
- 667 Signal Transport ISUP – Terminating

a. Since only six interLATA services were rendered to both QCC and other IXCs, all six services were selected for testing. Determined that the Qwest BOC uses only the IABS system to bill these services to both QCC and non-affiliated IXCs.

   1. Inquired and documented the Qwest BOC procedures for ensuring that the applicable tariff rate was billed to both QCC and non-affiliated IXCs and that the same rate table is used for all carriers. Obtained the current IABS rate table that included all applicable tariff rates, discounts, surcharges, late fees, etc. used to bill the six interLATA services. Also obtained the current tariff for the six interLATA services. Compared the rates listed on the rate table to the rates listed in the tariffs. No differences were noted. Also noted that the tariff rates on the rate table apply to both QCC and non-affiliated IXCs. Inquired and documented the procedures used by the Qwest BOC for updating the rate table for the Audit Test Period. Documentation of these procedures is included in Objective IX, Procedure 2a1.

   2. For the IABS system, documented in the workpapers the practices and processes that the Qwest BOC has in place to ensure the billing system bills the Section 272 Affiliate and non-affiliates at the same rates and under the same terms and conditions. Documented, in Attachment A-5, the Qwest BOC's internal controls and procedures designed to ensure non-discriminatory billing related to billings from IABS.

b. Randomly selected the months of January 2005, March 2005 and July 2005 for testing. Management represented that QCC began purchasing the six interLATA signaling services in August 2004. Obtained the billing records for the three months selected and noted that there were 72 billing transactions in total. All 72 billing transactions were selected for testing since the total population was less than 100 transactions.

   For the 72 billing transactions, obtained from the Qwest BOC the detailed listing of 102 billing elements included in the 72 billing transactions. For each of the 102 billing elements, tested for the application of the rate tables in effect at the time, including all applicable discounts, surcharges, late fees, etc. Compared the rates used to calculate the billed amounts to the corresponding rates on the rate table. No differences were noted.

   For the 72 billing transactions, obtained documentation that the Qwest BOC recorded the transaction as revenue to account 5082 and recorded the payment for the transaction. Also obtained documentation that QCC expensed the transaction and that the same amount was paid by QCC. No differences were noted.

c. This procedure was not performed as the same system, IABS, is used to bill both the Section 272 Affiliate and non-affiliated entities. See testing in procedure a. above.

d. This procedure was not performed as the same system, IABS, is used to bill both the Section 272 Affiliate and non-affiliated entities. See testing in procedure b. above.

Procedures for Subsequent Events

1. Qwest Corporate management represented that the Qwest BOC's and Section 272 Affiliates' processes and procedures have not changed since the time of execution of these procedures and the end of the Engagement Period.

2. Obtained written representation from management that they were not aware of any event subsequent to the Engagement Period, but prior to the issuance of this report, that may affect compliance with any of the objectives described in this document, other than described below:

    - Management represented that, subsequent to the Engagement Period, other services provided by QCC to QC were reviewed and additional billing issues were noted related to the implementation of the new Wholesale Service Agreement, as well as other services not tested. These additional billing issues included applying prospective rates to embedded services, failure to implement some revised pricing and pricing based on inaccurate or incomplete information previously entered into the ordering or billing system. Management determined that QCC overbilled for some services and underbilled for others with the total of all adjustments resulting in a billing credit to QC of approximately $2.35 million, of which approximately 75% relates to billing adjustments for services provided prior to 2004.

    - In addition to the late postings listed in Attachments A-1 and A-2, Management represented that, in 2006, five additional transactions and an updated list of USOCs for tariffed or cataloged services purchased by QCC and QLDC were posted to the 272 website to address issues identified during this engagement or independently by Qwest.

Follow-up Procedures on the Prior Engagement

1. The following matters were noted in the prior engagement's Qwest Communications International, Inc., Report of Independent Accountants on Applying Agreed-Upon Procedures, Ernst & Young (EY), LLP, dated June 8, 2004 (Prior Report). When performing the procedures related to the above matters, obtained the following representations from Management's regarding actions taken to ensure their non-recurrence or improvement, and the effective date of such action. and noted whether these matters continued to exist during the Engagement Period.

    a. As part of the reconciliation of the differences between the detailed fixed asset listing and the balance sheet, there is a $6,549,000,000 item for restatements and asset impairment that has been deducted from the balance sheet but not yet spread to the detailed asset listing. (See I-5 in Prior Report, I-6 in this report)

    Similar instances were noted during the Engagement Period but the reconciling difference was only $177,515,733.

    Management Response
    Subsequent to completion of the Prior Report the referenced fixed asset restatement and impairment adjustments were spread to the detailed asset listings. The large differences between the QCC general ledger and subsidiary ledgers referenced in the prior audit were the result of an effort to significantly improve the detailed information contained in the records of the Company.

    Although all of the adjustments resulting from this work had not been pushed into the detailed subsidiary records at the time the earlier audit was completed, the detailed information was available and in no way prevented us from complying with our 272 or Generally Accepted Accounting Principles (GAAP) requirements nor were they an impediment to the 272 audit. We continually work to improve our fixed asset processes and records. As we communicated previously, below are descriptions of some of the ongoing efforts to continuously improve our accounting. However, we believe the processes and procedures in place satisfy all GAAP and 272 requirements.

    Qwest converted to a new general ledger and accounting subsidiary system in January 2004. The new system provides additional mechanized links, processing edits and controls.

    These processing edits and controls compare the transactions posted to the general ledger with those posted to the subsidiary ledger. If an entry posts to the general ledger without a corresponding entry to the subsidiary ledger or vice versa, an error report is generated. Each day the error report is reviewed and necessary corrections made. As an additional check, Qwest's monthly reconciliation process utilizes a mechanized tool that identifies differences between the general ledger and subsidiary ledger for the balance sheet accounts. Management reviews any differences identified and a time period is specified for resolving the differences.

b. For one lease of an IRU, QCC was invoiced and paid to the lessor $614,675, however, QCC recorded the expense as $848,600. In addition, for a subagreement of that same lease, QCC failed to amortize the capital lease. (See II-2)

No similar instances were noted during the Engagement Period.

Management Response

The Prior Report included one instance where the invoice and amount recorded did not match. The difference between the amount invoiced and the amount recorded was $233,925, which is not material to the QCC Total Operating Expense for 2003 of $3.9 billion or to the total QCC lease expense for 2003 of $6.3 million. Qwest has in place comprehensive controls and continuously strives to improve its processes, however, no process is foolproof. Qwest does the following:

Recorded Expense

Qwest revised its company policy on approval authorities placing additional emphasis on governance of authorization and required documentation for expenditures. Employees in the Qwest family of companies are required to undergo annual corporate Code of Conduct training which includes coverage on books, records and accounting. Employees are required to certify their understanding of, and compliance with, company policies. In addition, Accounts Payable Systems controls are tested on a quarterly basis.

Capital Lease Amortization

During 2004, the QCC capital lease process was migrated from a spreadsheet application to the Lease Accounting Management System (LAMS). LAMS tracks capital leases, calculates monthly amortization and generates the monthly journal entry. Monthly expense is compared to trends of prior months, as well as budget estimates. Balance sheet accounts are compared to the LAMS subsidiary records each month and any differences are investigated and reconciled. In addition, using output from the Accounts Payable system, payments for leases are reviewed to ensure that they include a valid Lease Identification Number (LID) that has been assigned by Lease Management Services. If a lease payment is made without the LID, or the LID is not valid, it is investigated and LAMS records are adjusted when necessary. Controls over the lease process are tested each quarter.

c. There were nine instances where a Qwest BOC provided service to a Section 272 Affiliate before a written agreement was in place. (See V/VI-4)

d. Fifty-two (52) affiliate agreements were posted to the Internet more than ten days after their effective date. (See V/VI-5)

Similar instances were noted during the Engagement Period.
See Attachments A-2 and A-3

Management Response (c and d)
Qwest continually strives to improve its 272 compliance controls. In 2003, the first year of operations under 272, Qwest experienced some late postings. Many of the late postings that were included in the Prior Report were postings that Qwest had found and independently disclosed, along with postings that were in compliance with the Commission's rules. Additionally, many of the late posting transactions occurred before QCC was designated as a 272 affiliate. These services and functions have now been posted for at least two years, and Qwest has not received a single purchase request.

Qwest has taken a number of steps to strengthen controls to prevent services from being provided without written agreements and to comply with the requirement to post agreements and updates in a timely manner. These are:

- Additional training for the Business Unit Affiliate Managers (BUAMs) took place in May 2004 which emphasized the written agreement and 10-day posting requirements. All BUAMS completed the additional training and signed the required acknowledgements.

- In June 2004 and December 2005, all employee memos addressing 272 compliance were sent from the Corporate Compliance department.

- The BUAM functions and employees were consolidated from various business units into the Regulatory Accounting organization in August 2004. Functions were realigned, with a limited number of Affiliate Transaction Managers (ATM) responsible for getting the written agreements in place. A separate affiliate transaction billing and payment group was also established. The reorganization allowed for more standardization of processes.

- Comprehensive methods and procedures regarding affiliate agreements and 272 processes, including the written agreements and posting requirements, were placed on Qwest's Regulatory Compliance intranet website.

- QCC and QC entered into a new Wholesale Services Agreement to replace the task order that included services at issue in Objective V/VI, Procedure 6.

- Qwest revised its company policy on approval authorities. Included are revisions that specifically address affiliate contracts and Section 272 Affiliate transactions including the website link to the affiliate methods and procedures.

The mechanized tool used for bonus and merit treatment for management employees was enhanced to include a checklist that requires that all managers complete the annual compliance training requirements before they will be considered for any type of pay increase.

e. For services made available to the Section 272 Affiliates and not to third parties (joint marketing), 6 of 53 instances were billed incorrectly. (See V/VI-6)

Similar instances were noted during the Engagement Period.
See Attachment A-4

Management Response
Because the affiliate billing for joint marketing services is calculated and processed manually, human errors will happen. As soon as Qwest identifies an error, it is corrected, as was the case with the six billing errors found in the audit. Qwest had already found and self-corrected these errors (E&Y did require further adjustments to one of the error corrections).

Although Qwest does not consider the occurrence of human error and the subsequent correction to be a deficiency, Qwest continues to work to improve the accuracy of its affiliate billing. One step taken was to consolidate the BUAM functions and employees from various business units into the Regulatory Accounting organization where the functions were realigned with an affiliate billing staff responsible for monthly billing. Centralizing the billing function has allowed for more standardization.

To ensure that billing to the 272 affiliates is accurate, the affiliate billing staff validates the information used to calculate the monthly billing for each service prior to submission to the BART billing system. The validation includes comparison to prior month volume/usage as a reasonableness check, and matching of rates used to the current rates listed on the Work Orders and Task Orders.

If a mistake is found after the billing has been processed by the BART billing system, one of two actions takes place for corrections: 1) if it is found prior to the closing of the billing system for the month, a corrected bill is processed by the Billing Manager; or 2) if it is found after the billing system has been closed (perhaps due to a rate change, a clerical error, additional hours that should have been billed, etc.) a corrected billing is generated in the subsequent month's billing period.

f. For 13 of 100 bill records tested, the basic rate charged by the Section 272 Affiliate (QCC) to the Qwest BOC did not agree with the price posted in the affiliate agreements. These differences are listed on Attachment A-6 to the Prior Report. For 75 of the 100 bill records tested, including 3 of the 13 initial rate differences listed on Attachment A-6, QCC applied a discount of varying amounts (63 of the 75 bill records) or added a surcharge of $0.05 (52 of the 75 bill records) to the billed amounts. The discount and surcharge were applied in addition to the basic rate charged and were not included in the affiliate agreements posted on the Qwest Internet site. (See V/VI-7 in Prior Report, V/VI-8 in this report)

   Similar instances were noted during the Engagement Period.

   Management Response
   Qwest amended the task order to include discounts and surcharges that were not included on the previous task order. QCC and QC have since entered into a new Wholesale Services Agreement to amend the metered services portion of the task order.

g. The Qwest BOC purchased a switch from a third-party vendor at a price for $16,708,608 and immediately transferred it to QCC at the same price. This switch was not made available to third parties. (See V/VI-8 in Prior Report, V/VI-10 in this report)

   No similar instances were noted during the Engagement Period.

   Management Response
   As described in Qwest's supplemental information letter to Ms. Herauf and Mr. Paretti, dated October 1, 2004, the unique and one-time circumstances of the switch sale did not allow the Qwest BOC to make it available to third parties. The transaction was posted to the 272 website. It should be noted that the BOC fulfilled a minimum purchase obligation. The 272 affiliate paid the market price for the switch and was not benefited by this transaction. The Qwest BOC has not done any similar transactions during this Engagement Period.

h. The list, provided to E&Y, of services made available to the Section 272 Affiliates by the Qwest BOC that should also have been made available to third parties contained items that should not have been included and was inadequate for E&Y's testing purposes. (See VII-2)

No similar instances were noted during the Engagement Period.

Management Response

As stated previously, since this was Qwest's first time through the 272 audit, there were areas where the process did not work very smoothly. This area was one. In the first audit, Qwest did not use the correct data sources to compile this list. For the current audit Qwest provided a comprehensive list of services.

i. For 1,643 of the 14,845 customer accounts billed from the Qwest BOC's CRIS system, the rates charged the Section 272 Affiliates were different than the rates charged non-affiliates. (Attachment A-7.) For 61 of the sample of 100 billed instances of rates charged to QCC, there was a difference from the rates charged non-affiliates. (Attachment A-8a.) For 45 of the sample of 100 billed instances of rates charged to QLDC, there was a difference from the rates charged non-affiliates. (Attachment A-8b.) (See VII-3a in Prior Report, VII-4 in this report)

Similar instances were noted during the Engagement Period.

Management Response

As described in Qwest's supplemental information letter to Ms. Herauf and Mr. Paretti, dated October 1, 2004, the rate differences noted on Attachment A-8b were appropriate and supported by factors described in the supplemental information. To summarize, Attachment A-8b of the E&Y report lists rate differences for billing and collection services (B&C). Because each contract is individually negotiated, there is no deficiency. The rates depend on when the contract is negotiated, volume discounts, market conditions and the give and take of negotiations. QC competes with third-party providers, as well as other billing vendors (like major credit card companies) to provide bill production services.

The processes and pricing used for QC's provision of B&C to QCC and QLDC are in compliance with the section 272 rules and the FCC's affiliate transaction rules. QC negotiates B&C contracts with the 272 affiliates using the same processes used with other IXCs. QC differentiates pricing for different types of service providers and adjusts prices according to the specific market being targeted. Rates charged by QC to the 272 Affiliates are posted with a non-discrimination obligation to provide the same services at the same rates, terms and conditions.

j. There were 19 instances where the Qwest BOC customer service representative marketed Qwest long distance service but did not inform the customers of their right to choose a long distance provider. (See VII-6a in Prior Report, VII-7 in this report)

Similar instances were noted during the Engagement Period.
See discussion of call center observations in Objective VII, Procedure 7

Management Response
Qwest has in place comprehensive compliance controls. However, no process is foolproof and deficiencies will occur. Qwest continuously strives for improvement. Since the first audit, Qwest's consumer organization has increased manager awareness and commitment of 272 scripting rules by incorporating compliance objectives into performance objectives for call center leaders. These include:

Consumer: Communications from consumer leadership to all channel employees emphasizing the importance of 272 script adherence and correct processes when adding new service and selling long distance service.

- Beginning in October 2004 Consumer initiated 30-60-90 day training review for compliance including a 272 scripting requirement.
- Implemented clearer performance expectations for sales employees and managers.
- Implemented Quality Assurance (QA) monitoring based on four calls per consultant per month. This QA monitoring includes 272 compliance evaluations.
- Immediate notification from QA to the supervisor whenever a call is observed with a 272 deficiency so that coaching can be performed promptly.
- Established QA compliance reporting mechanisms that list deficiencies as a management tracking tool.
- A Regulatory Compliance road show was conducted during mid-2005 with visits to each sales and service call center. The road show included reminders and training on 272 compliance.

Small Business:

- Conducted mandatory refresher training of the background, purpose and process for 272 scripting with all small business call centers.
- Provided scripting job aid for all consultants and coaches.
- Implemented monthly reporting of results on all 272 scripting, as well as 90-day trending, to all call center directors.
- Provided 272 scripting in Spanish to bilingual call centers.

- Implemented automated (vs. manual handling) 272 compliance reporting and notification to call centers.

k. The Qwest BOC refused to provide E&Y with copies of three vendor contracts that E&Y had requested. (See VII-9 in Prior Report, VII-10 in this report)

No similar instances were noted during the Engagement Period.

Management Response

Qwest did not refuse to provide any documents to E&Y. In their report, E&Y stated "Qwest did not provide copies of vendor contracts with Telespectrum, Focus and Center Partners. The Qwest BOC represented that these contracts are extremely voluminous and are not responsive to the Procedure. These call centers do not accept inbound calls on behalf of the Qwest BOC for new local service or calls to move existing local service, as noted in the testing performed in Objective VII, Procedure 7 above." The call centers at issue were not relevant to the 272 audit because they did not receive in-bound calls for new service or transfers of service. The contracts were voluminous; however, they could have been available for viewing. Qwest will continue to provide all relevant documentation during the current audit.

l. There were numerous instances where the Qwest BOC provided a lower quality of service to competing interLATA service providers than the service it provided to its Section 272 Affiliates. (See VIII-4)

Similar instances were noted during the Engagement Period.
See Attachments A-7, A-8, and A-9

Management Response

Qwest has designated Regulatory Compliance and Business Unit measurement owners who are responsible for assuring measurement accuracy, as well as monitoring performance results. When reviewing performance results, Qwest focuses on the "parity score," which is a numeric indication of whether the reported difference in results is statistically significant. A negative parity score means the result is not statistically significant, and thus "in parity" or the same, while a parity score greater than or equal to zero indicates the difference between Qwest affiliates and non-affiliates is statistically significant, and thus "not in parity."

For performance measures where the parity score is less than zero (0), Qwest does not perform root cause analysis because, as the parity analysis indicates, the results are "in parity."

For performance measures where the parity score is greater than zero (0), Qwest's normal process is to perform root cause analysis when the condition exists for three consecutive months, consistent with FCC orders approving 271 applications, in which isolated occurrences were not considered to be patterns of disparity.

- Qwest's 272 Performance results consistently demonstrate that there is no pattern that suggests service quality discrimination
- The overall numbers of parity misses are very low, random, and isolated
- Three products had misses: Feature Group D, DS1 and DS0
- Per normal process, root cause analysis was performed to determine the major contributors to each miss

m. The Qwest BOC did not provide E&Y with appropriate data with which to compare rates charged, and terms and conditions applied, to each Section 272 Affiliate with those charged and applied to a sample of IXCs for the same services. (See IX-2)

No similar instances were noted during the Engagement Period.

Management Response

For Objective IX, Procedure 2, any testing to compare billed amounts between customers must take into account two factors that directly impact the billed amount. These factors are the Percent Interstate Use (PIU) factor and the shared use factor, both of which are supplied by the customer. During the first audit, the PIU and shared use factors were not included in the testing, therefore it was not possible to determine if differences in circuit billing were appropriate. Qwest has worked with E&Y to ensure that changes to the procedures in the second audit remedied the deficient test design.

The PIU factor determines how much of the facility will be billed at the FCC Tariff 1 rates versus state access tariff rates. Circuits that are 100% interstate are billed at the FCC rate; circuits that are 100% intrastate are billed at the state rate; and circuits that include a combination of both intrastate and interstate usage are billed at a rate determined by applying a percentage factor to both rates. Therefore, the billed amounts for circuits cannot be compared between customers (or even within the same customer) unless the same PIU is used for each circuit being compared.

A similar scenario exists for a shared use factor. Circuit billing cannot be compared between customers unless the circuits have the same shared use factor. This factor apportions or reduces a transport facility from the FCC Tariff 1, Section 6 or 7 based on the number of channels being utilized for Switched Access. The shared use factor appears on the customer's service record on any facilities that have both Section 6 (switched) and Section 7 (special) services. Applying this factor causes the billed amount per circuit to vary.

n. The Qwest BOC imputed for access, switching and transport for the National Directory Assistance (NDA) service and E911 service during the Engagement Period. For NDA, the Qwest BOC could not provide supporting documentation for the quotes used in the cost study. For E911, the rate published in the tariff was different than the rate used in the OCS study for 20 of 100 rates tested. Also for E911, the USOCs used in the OCS study were not available on the Qwest Tariff Library Website for 61 of the 100 rates tested. (See X-2)

   No similar instances were noted during the Engagement Period.

   Management Response

   As described in Qwest's supplemental information letter to Ms. Herauf and Mr. Paretti, dated December 15, 2004, Qwest provided a detailed review and update of the studies used for E911 and National Directory Assistance (NDA) services. The results are summarized below.

   E911 – The facilities used to provide the non-regulated portion of E911 – Automatic Location Identifications (ALI) – are provisioned on official communications circuits. In the past, reimbursement for the use of these facilities was incorporated into the Official Communications Services (OCS) study which encompassed all facilities used for internal purposes. Because the revised OCS study addresses only costs for communication services used by employees, new methodology was developed to account for the circuits used for provisioning E911.

   To determine the Part 64 cost allocation for circuits, all of the facilities used to provision E911 ALI are identified in the revised E911 study. A QC tariff rate is applied to each circuit to determine a cost. If a QC tariff rate is not available, a market-based lease rate is used. Documentation, including facility identification, pages from the appropriate tariffs, and documentation on the lease rates, has been gathered and is on file with the cost study preparer. This information will be updated each time the study is revised.

   OCS – The revised OCS study captures only those costs required for provisioning QC employee communications services. This study is based on the average number of phone lines including select features, and long distance services used per employee. Tariffed rates are applied to the services for the total number of QC employees. Back-up documentation for the tariff rates used in this study has been gathered and is on file with the cost study preparer. This information will be updated each time the study is revised.

NDA – OCS facilities are also used to provision NDA. The methodology used in the revised E911 study is also used in this study. The facilities, tariff rates, and lease rates have been updated. Documentation, including facility identification, pages from the appropriate tariffs, and documentation on the lease rates, has been gathered and is on file with the cost study preparer. This information will be updated each time the study is revised.

o. The total amount paid by the Section 272 Affiliates to the Qwest BOC exceeded both the amount recorded as expense and the amount billed them for local exchange service and exchange access service from the BOC by over $20 million. Also, QCC and QLDC could not identify amounts paid for exchange and exchange access per the procedure, yet neither Section 272 Affiliate notified the JOT of this situation until the audit report was written. (See X-3)

Noted amount billed to Section 272 Affiliates exceeded the amount paid and recorded by the Section 272 Affiliates by approximately $2M and $3M, respectively. Additionally, noted that the Section 272 Affiliate payment information was again provided in total for all services (i.e., Local Exchange and Exchange Access). See Table 8 above for further detail.

Management Response

The Qwest BOC bills many different types of services on a single invoice, such as local exchange, exchange access, toll, operator services, taxes, surcharges, etc. Separate invoices are not issued for each individual service. The 272 affiliate payments are by invoice, not service, and usually invoices are combined into a single payment.

During the second audit, Qwest improved the reconciliation process so that a more accurate match between QCC payments and the BOC billing for local exchange and exchange access will result.

Affiliate Agreements Tested in Objective V,VI-5 That Were Posted in the Qwest Internet Site More Than 10 Days After the Test Date							
Line	From	To	Agreement	Test Date	Internet Posting Date	# of Days Late	Management Response - Reason for Late Posting
1	QC	QCC	Amendment 6 to Work Order Human Resources Services	October 28, 2004	December 9, 2004	32	Responsible party was confused regarding 272 requirements for temporary functions. Discovered during affiliate manager review. Qwest continues to reinforce training efforts.
2	QC	QCC	Original to Work Order Retail Markets Joint Marketing	April 1, 2004	April 14, 2004	3	During review, determined that responsible party interpreted 10 day posting requirement to mean signature/billing date. Clarification was provided on posting rules to posting rules to mean earlier of signature/provisioning date.
3	QCC	QC	Original to Task Order Employee News	June 13, 2004	July 12, 2005	384	Information shared in all Qwest employee newsletter subsequently determined to be QCC confidential information.
4	QCC	QC	Rate Change Notification RSI Code Change 6/1/05	June 1, 2005	August 3, 2005	53	Manager thought it had been posted, discovered it was missing during website review.
5	QC	QCC	Colorado Interconnection Agreement	June 23, 2004	August 27, 2004	55	Late notification of service being provided resulted in failure to post agreement in timely manner. Additional processes established in Wholesale department to ensure timely notification.
6	QC	QCC	Minnesota Interconnection Agreement	June 23, 2004	August 27, 2004	55	Late notification of service being provided resulted in failure to post agreement in timely manner. Additional processes established in Wholesale department to ensure timely notification
7	QC	QLDC	Customer Lists	September 3, 2003	February 10, 2004	150	A function inadvertently not identified within 10 days of provisioning but discovered and corrected by Qwest review controls. The same information is provided to other IXCs.
8	QC	QLDC	Local Service Provider Identification Information	August 3, 2003	February 10, 2004	181	A function inadvertently not identified within 10 days of provisioning but discovered and corrected by Qwest review controls. The same information is provided to other IXCs.

Additional Management Disclosures of Late Posted Section 272 Affiliate Agreements During the Engagement Period

Line	Agreement	From	To	Reason for Late Posting	Earlier of Date Signed or Date Service First Provisioned	# of Days Late Posting
1	Amendment 5 to Work Order to Consulting and Support	QC	QCC	Service posted late due to delay in obtaining signatures.	October 1, 2004	8
2	Employee News Work Order	QC	QCC	Information shared in all Qwest employee newsletter subsequently determined to be QC confidential information.	June 13, 2004	384
3	QCC Equipment Space Work Order	QC	QCC	In 2004, when moving equipment located in the 1801 California Street bldg (QC Facility), it was determined that it belonged to QCC and had been placed in the building at merger - prior to QCC becoming 272 affiliate. QC billed QCC back charges.	July 1, 2000	Over 1000+
4	Retail Markets General Services Work Order	QC	QCC	During review, determined that responsible party interpreted 10 day posting requirement to mean signature/billing date. Clarification was provided on posting rules to mean earlier of signature/provisioning date.	April 1, 2004	3
5	Amendment 1 to Task Order Sale of Spare Computers	QCC	QC	Late notification of sale resulted in failure to post the task order in a timely manner.	August 1, 2004	48
6	Dark Fiber Lease Agreement - 02402 Portland to Kelso	QCC	QC	Late notification of service being provided resulted in failure to post agreement in timely manner. Additional processes established in Wholesale department to ensure timely notification.	June 21, 2004	6
7	Qwest ISDN PRS for VoIP Providers (Individual Case Basis (*ICB*) Agreement	QCC	QC	Late notification of service being provided resulted in failure to post agreement in timely manner. Additional processes established in Wholesale department to ensure timely notification	June 17, 2004	23
8	Retail Markets General Services Work Order	QC	QLDC	During review, determined that responsible party interpreted 10 day posting requirement to mean signature/billing date. Clarification was provided on posting rules to mean earlier of signature/provisioning date.	April 1, 2004	3
9	Retail Markets Joint Marketing Work Order	QC	QLDC	During review, determined that responsible party interpreted 10 day posting requirement to mean signature/billing date. Clarification was provided on posting rules to mean earlier of signature/provisioning date.	April 1, 2004	3
10	Wholesale Provisioned Services Work Order	QC	QLDC	Edit added to existing service order processing system. Later determined to require posting.	December 1, 2003	355
11	Amendment #3 to Qwest Total Advantage Agreement	QCC	QC	Late notification of Amendment resulted in failure to post in timely manner	November 3, 2005	78
12	Rate Change Notification (Notice of RSI Code Change) 02-08-05	QCC	QC	Due to change in personnel and shift of responsibilities posting document was inadvertently overlooked	February 8, 2005	4
13	Telecommunications Services	QCC	QC	Discovered lack of posting during billing review--unable to locate pre-merger contracts and will post task order	July 1, 2000	Over 1000+
14	Telecommunications Services	QC	QCC	Discovered lack of posting during billing review--unable to locate contracts and will post work order	July 1, 2000	Over 1000+
15	Account Data Verification Service (Other Contract Account Data Verification Service)	QC	QCC	A function inadvertently not identified within 10 days of provisioning but discovered and corrected by Qwest review controls. This late posting was included in the previous report dated June 8, 2004 - See Attachment A-5, Item 20 from June 8, 2004 Report	November 3, 2003	92

Differences Noted in the Rates Billed from the Qwest BOC to Section 272 Affiliates for Non-Tariffed Services Not Made Available to Third Parties

Line	Month	Service	Description	Total Units Billed	Rate Per Unit Difference - Underbilled	Total Amount Underbilled	Management Explanation
1	February 2004	National Consumer Markets Joint Marketing	Salary Grade 20	64.00	$ 43.44	$ 2,780.16	The rates on the invoices did not match due to a delay in annual pricing associated with Qwest's restatement process. A true-up was issued for invoice in April 2004.
2	February 2004	National Consumer Markets Joint Marketing	Salary Grade 21	29.00	$ 2.35	$ 68.15	The rates on the invoices did not match due to a delay in annual pricing associated with Qwest's restatement process. A true-up was issued for invoice in April 2004.
3	October 2004	Wholesale Sales	Salary Grade SI3	282.72	$ 10.52	$ 2,974.21	Rates did not match the Affiliated Pricing Form due to a missed hand-off when the billing responsibility transferred from one employee to another at about the time of the price change in September 2004. A true up was issued for the invoice in January 2006.
4	October 2004	Wholesale Sales	Salary Grade SI4	1,178.00	$ 6.17	$ 7,268.26	Rates did not match the Affiliated Pricing Form due to a missed hand-off when the billing responsibility transferred from one employee to another at about the time of the price change in September 2004. A true up was issued for the invoice in January 2006.
5	October 2004	Wholesale Sales	Salary Grade SI6	1,602.08	$ 10.25	$ 16,421.32	Rates did not match the Affiliated Pricing Form due to a missed hand-off when the billing responsibility transferred from one employee to another at about the time of the price change in September 2004. A true up was issued for the invoice in January 2006.
6	October 2004	Wholesale Sales	Salary Grade SM4	141.36	$ 12.81	$ 1,810.82	Rates did not match the Affiliated Pricing Form due to a missed hand-off when the billing responsibility transferred from one employee to another at about the time of the price change in September 2004. A true up was issued for the invoice in January 2006.
7	April 2005	Wholesale Sales	Salary Grade SI3	282.72	$ 10.52	$ 2,974.21	Rates did not match the Affiliated Pricing Form due to a missed hand-off when the billing responsibility transferred from one employee to another at about the time of the price change in September 2004. A true up was issued for the invoice in January 2006.
8	April 2005	Wholesale Sales	Salary Grade SI4	1,036.64	$ 6.17	$ 6,396.07	Rates did not match the Affiliated Pricing Form due to a missed hand-off when the billing responsibility transferred from one employee to another at about the time of the price change in September 2004. A true up was issued for the invoice in January 2006.
9	April 2005	Wholesale Sales	Salary Grade SI6	1,225.12	$ 10.25	$ 12,557.48	Rates did not match the Affiliated Pricing Form due to a missed hand-off when the billing responsibility transferred from one employee to another at about the time of the price change in September 2004. A true up was issued for the invoice in January 2006.